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C O N F I D E N T I A L SECTION 01 OF 02 QUITO 001257

SIPDIS

DEPT PASS TO USTR BENNETT HARMAN

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SUBJECT: PRESIDENT PALACIO ON IMF, FTA AND HEALTHCARE

REF: QUITO 1181

Classified By: Ambassador Kristie A. Kenney, Reason 1.4 (b)(d)

11. (C) Summary. In a May 31 meeting with the Ambassador, President Palacio, a heart surgeon, discussed his ambitious national health care plan. He also told the Ambassador to pay little attention to the exuberance of youth displayed by Palacio's Minister of Economy and Finance Rafael Correa. In a public show of support for the FTA, Palacio said he planned to bring his entire cabinet to the FTA talks next week in Guayaquil. Palacio's economic team leaves much to be desired. Septel will address the political issues addressed during the meeting. End Summary.

Healthcare a Priority

12. (C) President Palacio spoke at length with the Ambassador about Palacio's pet project, a national healthcare system. Palacio, a U.S. trained heart surgeon, has been pushing for such a program since he became Vice President in January 2003, but was largely ignored by then president Lucio Gutierrez. Palacio sees this as his opportunity, and perhaps his legacy for the country. Though, it was unclear where the expertise would come from to implement such a program, Palacio said his recent proposed changes to Ecuador's oil stabilization fund (FEIREP), allocating 15% of the fund's revenues to health matters, would give the program a jump start.

Ignore Economy and Finance Minister's Exuberance

13. (C) Palacio said he was pleased with his cabinet, but volunteered that his Minister of Economy and Finance Rafael Correa suffered from the exuberance of youth and was not as careful as he should be with his public statements. However, Palacio assured the Ambassador that his administration was dedicated to strict fiscal discipline. Though, he added, social investment was also important.

14. (C) The Ambassador noted that press statements attributed to Correa indicated that he was not taking such a hard line on fiscal discipline and that Correa appeared confrontational with those who did not share his views. She also alluded to Correa's unfounded allegations that the Gutierrez government (of which Palacio was Vice President) had a "secret" pact with the International Monetary Fund. Palacio responded that Correa simply needed to tone down his rhetoric and that Palacio had full confidence in him.

Trade Issues

15. (C) To contrast the styles of the ministers, the Ambassador mentioned that the Embassy had been working with Minister of Trade Oswaldo Molestina to resolve pending trade disputes with U.S. companies. She noted specifically though that the Oxy case remain unresolved. In response, Palacio said he was pleased that Molestina was working with us. He added that he would show his report for free trade by having his entire cabinet come to Guayaquil for next week's 10th round of the U.S.-Andean FTA negotiations.

Comment

16. (C) We are not convinced that Minister Correa's only problem is the tone of his rhetoric (see reftel). Nor are we convinced of Palacio's commitment to an FTA. His past public statements cast doubt on that commitment. Also, prior to becoming Vice President, Palacio had little government experience and gained none when he was isolated from the rest of the Gutierrez administration.

17. (C) Palacio's failure to appreciate the sensitivities of the Ecuadorian financial picture and how it can be affected by the "exuberant" comments of its populist Minister of Economy are another indication of the steep learning curve Palacio has. With one presidential candidate (Alvaro Noboa) already starting his campaign, Palacio will have little time to be schooled.

18. (C) Thus far, Palacio has not proven to be too adept in the selection of his economic team. The proposals of his Minister of Economy and Finance have created considerable uncertainty in the financial sector. Minister of Energy Fausto Cordovez has no experience in the sector and refused or was unable for eight years to pay his delinquent debts, until last week. Robert Pinzon a Palacio confidant and now President of state-oil company PetroEcuador also has considerable outstanding debts and the lowest credit rating one can have in the country, spent time in jail for fraud. The most promising economic team member, Minister of Trade Oswaldo Molestina, cannot seem to decide who will lead his FTA negotiation team. The one bright spot in the Gutierrez administration was its economic record. The new Palacio administration might soon blot that bright spot out.

Kenney